REMAS Inc.

An Electricity Policy for the 21st Century

Options and Opportunities

Customer and Public Reactions

Compiled by
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A. INTRODUCTION

STAKEHOLDERS RESPONSES

The responses have been limited but of good quality. In all, twenty-nine submissions representing thirty-four interested parties, were received. It was REMAS Inc.'s charge to report the positions of these various groups and individuals to the officials of the Department of Mines and Energy so that they are aware of them as they proceed to define the most appropriate policy to recommend.

As one might expect there were differences of opinion in the answers to the various questions posed in the document, some diametrically opposed one to another. There were other instances where there was almost total consensus on how to proceed and finally there was a willingness by many respondents to recognize that there was room to consider some compromises as we make the hard choices necessary for a sound and fair electricity policy.

Several of the respondents pointed out certain circumstances which influenced their opinions as to how to respond to the policy document. They are listed here so that the reader can have some perception of the context in which various views were expressed or in some cases why there was a reluctance to comment at all..

1) There are actually two major power systems in the Province, one on the Island and one in Labrador. The Island system is isolated from the North American grid and the Labrador system is connected to the North American grid through Quebec. Both have a very different history and a very different cost base.

2) The size of the isolated Island power network is not large enough to support a major reformation envisaged by an open market system controlled by more than one Crown Corporation similar to that being established in Ontario. If circumstances change, that is if there is a major expansion of the Island power system, there will be enough lead-time to adapt structures in parallel with growth taking place.

3) Be they large customers or small, consumers have expressed their prime requirements as an adequate supply of electricity, reliably delivered at the least cost attainable. They also accept that safety of personnel and the public and respect for the environment are important considerations for the utilities to honour.

4) Whether there are any changes made by way of new policy direction or not, electricity rates will be increasing substantially over the next few years. This is due primarily to the need to adjust the base price of oil in the Rate Stabilization Plan

from $12.50 a barrel to something closer to the current price of between $25.00 and $30.00 a barrel. A lesser but significant increase will be required as new generation, now under construction, comes on-stream.

5) Several respondents expressed frustration that not enough information was available for them to determine whether they were facing a low load growth scenario for the Island or whether an over build of supply is contemplated as a part of an economic development program. The point being that if there is even a modest forecast for industrial growth it can affect the choice of generation projects beyond Granite Lake. Conversely the choice might be quite different if we are stuck with a modest or flat load growth.

6) Finally many of the submissions mentioned that when any proposed policy changes are more clearly focused and identified that they would appreciate open forum discussions before implementation.

B. EXECUTIVE SUMMARY

Note: This section will address in short form the responses received to the questions raised on the inside cover of the Stakeholder Consultation Document. A more detailed analysis of the responses appear in Sections C, D, E and F.

INDUSTRY STRUCTURE

Q. Should Newfoundland and Labrador Hydro (NLH) buy Newfoundland Power (NP)?

Most respondents rejected this proposal principally because they believed it would be too costly and contribute to additional rate hikes. The strongest proponent for nationalizing NP came from one of the Union presentations which favoured a vertically integrated model similar to Hydro Quebec. They perceive a lot of public support for this.

Q. Should NLH be split up (but not sold) and new private sector competitors encouraged?

Most respondents were opposed to the split up of NLH as a needless restructuring which would be at additional cost. NLH felt that most of the attributes of a split up could be achieved by internal restructuring of NLH. There was little objection to allowing private sector development of generation projects as long as they are the lowest cost option when compared in a fair and open process.

Q. Should we establish a "Power Pool" type system with an independent operator?

There was not much support for a Power Pool concept separate from NLH.

Q. Should NLH get out of the distribution business and pass its assets over to NP?

There was some agreement that distribution assets could be transferred but only if it was for improved efficiency resulting in cost savings. Some felt that this needed a study to demonstrate this so as to dispel any perception that it might be just another step towards privatization which was opposed by many people before.

INDUSTRY REGULATION

Q. Should we create a competitive environment and allow the marketplace to regulate pricing?

There was no support for this proposal. It was felt that the number of players and the isolated nature and size of the Island system would work against any perceived gain by its implementation. Also many felt that even when conditions were favourable in other jurisdictions the experiment did not go well.

Q. Should prices be set separately for generation and transmission (i.e. "unbundled"?

There was little or no support for unbundling of rates because no advantages were evident especially if the Power Pool concept was not accepted. NP thought it might merit a serious examination.

Q. Should Government retain the Public Utilities Board (PUB) authority over NLH's decisions, or take it back?

Retention of the Public Utilities Board's authority was unanimously endorsed. One respondent even suggested that legislation should be changed so that NLH, while participating in the delivery of social and economic directives of Government, should be accountable to the PUB. Others were supportive of examining Performance Based Regulation (PBR) to see if it has any potential for increasing the efficient operation of the utilities.

FUTURE GENERATION SOURCES

Q. How do we balance the different environmental impacts of different types of generating plants?

All proposed generation and transmission projects should be subject to a rigorous environmental assessment. There should be no exceptions. It was generally agreed by most parties that the current environmental process conducted in advance of any commitment would determine the correct balance between proposals.

Q. Can some small-scale hydro projects be acceptable?

There was strong opposition to lifting the ban on small hydro developments by parties representing the preservation of salmon stocks and the tourism industry. Others advocated consideration of some rivers for power developments but only after they cleared the

environmental process and a broader examination of a cost benefit study which would identify a small number of potential sites. The remainder would stay under a ban.

Q. Should we allow private companies to develop these?

There was substantial agreement that private companies should be allowed these development rights in a competitively bid process. Suggestions as to what constituted the ceiling limit for small hydroelectric developments varied from 5 MW to 50 MW. Approval to develop these projects would be contingent upon environmental approval and were cost effective as judged by the PUB or some other independent body.

Q. What is the role of thermal generation using alternative fuel sources (wood, peat, waste)?

Of the three alternative fuels mentioned peat and methane gas from waste found some support but several respondents doubted whether either of these would compete with small hydro and wind power in the short term.

Q. Should we keep the door shut on nuclear power?

There was almost complete agreement that nuclear should be an option for consideration as long as the Island system remains isolated.

Q. What role could be played by new technologies, such as fuel cells and solar power, which are not yet commercially available?

There was almost unanimous agreement that the planners of the power systems should monitor all new technologies to determine if and when they become viable additions to the power systems. Besides the two mentioned as examples there was a strong belief that wind shows the greatest promise and in the longer term hydrogen.

Q. Is conservation the best solution to projected future energy needs?

Some concerns were raised that too aggressive an approach to conservation might have an adverse effect on electricity rates. Others felt that, with only high cost options left to meet the Island load, conservation was a sensible and responsible action to take.

Q. How do we ensure that NLH is not in a conflict situation when it evaluates other proponents' proposals?

Most respondents agreed that an assessment process should be established that require Requests for Proposal (RFP) to be clear, open and managed by an independent third party.

ECONOMIC DEVELOPMENT

Q. How can we use our electrical resources for economic development?

Here the different characteristics of the two power systems (the Island and Labrador) influenced the thinking of the respondents. For Labrador it was felt that the availability of recall power from the Churchill Falls system now and what may be negotiated in the future provides an opportunity to mount an effort to promote industrial development in Labrador. For the Island there was skepticism that electricity rates would ever be sufficiently competitive to entice major industrial expansion unless those rates were heavily subsidized.

Q. Do rate subsidies for new industries - which all consumers would pay for - help or harm our economy?

The industry respondents were very much in favour of rate subsidies as a means of offsetting other high costs they incur as a consequence of operating in this province. Given that most of them operate in an highly competitive international market higher electricity rates will likely affect the cost of the products and services to the point where capital expansion will not occur and in the worse scenario, shut down of operations could occur. Other submissions voiced the opinion that the taxation system and not electricity rates should provide the avenue for industry subsidization. NLH made the point that the decision on this resides within the legitimate authority of Government and not with the utility.

Q. What are the possibilities for interconnection with mainland Canada and the U.S., to access their power and to export our own?

There was little response to this question. This should come as no surprise as it was not clear as to the possibility of these connections and whether there is potential for industry development as a consequence. No submissions were received from any proponents of the interconnections. Those that did respond supported the Labrador interconnection but were doubtful about the economics of a Cabot Strait interconnection at least in the short term.

C. RESPONSES ON INDUSTRY STRUCTURE

Note: Each paragraph represents the views of a different party and the views expressed may be in support of or in opposition to one another. A dividing line is provided to distinguish between respondents.

FROM ASSOCIATIONS

The Current Model, (Status Quo), the Composite Model and the Competitive Generation Model are not acceptable. The vertically integrated model, (the Hydro Quebec example), with some modifications is the superior choice. Inefficiencies through duplication of services are more perception than real. If they exist they are better eliminated by the purchase of the assets of NP by NLH. When clearly outlined the entire restructuring proposal should have the benefit of a public review process.

****

The Current Model - Status Quo is preferred. The Composite, Competitive Generation and Vertically Integrated Models are not acceptable. Any restructuring must lower the costs of electrical energy to customers and must not compromise reliability, safety or dependability. Changes that are not to the benefit of the citizens of Newfoundland and Labrador should not be considered.

****

Opposed to any expansion of NLH's dominant position. Fair competition between private sector and a "split up" NLH is impractical. Would support a Power Pool under certain conditions and would support the transfer of NLH assets to NP if it indicates cost savings.

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The Current Model - Status Quo is preferred over the Composite, the Single Integrated and the Competitive Generation Models.

****

FROM INDUSTRY

The Competitive Generation Model does not appear to be a winner. There was not enough information to make a judgment call on the other models.

****

Opposed to NLH purchase of NP as it may cause a rise in electricity prices. Also opposed to the split up of NLH. The impact of such moves elsewhere in Canada should be studied. Agrees to the transfer of distribution assets if this results in reduced costs resulting in lower rates.

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FROM INDIVIDUALS

The Composite model with a high degree of independent control over future development is needed. The existing resources of NLH are not capable of fulfilling this role. Would support any reasonable measures to eliminate the influence of outside corporations on the provincial power system. There is a perception that NLH is only interested in conventional sources of generation (hydro-electric). New technologies are not considered.

****

Discussion of various options at public forums is needed if a major departure from the status quo is contemplated. Such forums should be led by knowledgeable individuals conversant with Canadian electric utility practice. If the status quo is retained the responsibility for generation and transmission should rest with NLH and distribution with NP. Where it benefits the consumer (lower rates), the exchange of assets to better reflect each company's role could be considered. The Island population and the power system that serves it are too small to support a model which carves up responsibilities into separate business units. The cost would be horrendous.

****

Believes privatization of NLH is still the intent and is totally opposed to that concept. If anything NP should be nationalized even if the short-term pain is high.

**********Pr

efers existing structure. Guidance should be "if it ain't broke don't fix it". Composite model introduces unnecessary bureaucracy and government interference. One integrated utility will be very expensive. Efficient monopolies are like "flying pigs"

**********Obj

ected to the nationalization of NP as is not affordable. Against split up of NLH. The private sector can compete if on a level playing field. Hydro should remain as the Power Pool operator. No transfer of assets from NLH to NP should be contemplated.

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FROM MUNICIPALITIES

Objects to any thought of the production and distribution of electricity being placed in the hands of private companies.

****

FROM NEWFOUNDLAND AND LABRADOR HYDRO

NLH believes that the Competitive Generation and the Single Integrated Models are problematic and that most of the attributes of the Composite Model can be achieved by internal restructuring of NLH. They disagree that an independent system operator be established. Their view is that control of the planning of the generation and transmission system should rest with the utility charged with operating that system and they maintain that any restructuring into business units should be done internally at NLH. They recommend that consideration be given to an independent study of a rationalization of responsibilities for NLH and NP that would achieve greater efficiency of operations.

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FROM NEWFOUNDLAND POWER

NP believes that the Composite Model holds more promise than any of the others. They believe the Competitive Generation and the Single Integrated Utility Models as outlined are unworkable. Instead they suggest a structure that has NLH responsible for large generation and system dispatch and NP responsible for transmission and retail distribution would best serve electricity consumers.

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D. RESPONSES ON INDUSTRY REGULATION

FROM ASSOCIATIONS

PUB states that there is insufficient cause to abandon the current regulatory process, Return on Rate Base (RORB). They acknowledge there are opportunities for improvement in the RORB process as well as a move towards Return on Equity (ROE) and/or Performance Based Regulation (PBR) principles. They recommend a cautious approach to adopting any changes to ensure they are implemented prudently allowing for proper transition. PUB supports amending legislation to provide greater flexibility so that financial variables other than RORB could be used in rate setting activities. They request to be more closely involved in deliberations leading to regulatory changes.

****

Removing or significantly altering the regulatory process would not serve the consumer well. Legislation should be changed so that NLH, while participating in the delivery of social and economic directives of government, should be accountable to the consumer regulator. PBR and unbundling of rates are new concepts that have yet to prove themselves.

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Opposed to any form of deregulation. The North American experience has not been good - increased rates, lesser reliability. They do support the current regulatory system (PUB) as the best process to ensure accountability. They are not convinced that there is any merit in pursuing PBR.

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This is a first step in a transparent public process that should be continued for projects arising.

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Opposed to marketplace regulation. Unbundled prices will be a consequence of establishing a Power Pool. They see no conflict under current legislation and agree with current process for regulation.

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Agrees to regulatory reform if it protects customers and achieves operational efficiencies.

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FROM INDUSTRY

The current PUB process for regulating utilities is complex, burdensome and without the proper incentives but nevertheless it is essential. Continued scrutiny of the utilities capital budgets and other major issues is necessary but mediation and alternate dispute resolution mechanisms to address these can shorten formal proceedings. They would recommend that the process introduce those elements of a PBR system that promote efficiency. There must be a realization that stable prices should reflect true operating costs, minimized capital expenditures, appropriate dividend levels, minimum cross subsidization, and correct sharing of risks. Fair allocation of costs between classes of customers needs more attention. A tax on electricity production, if proposed, must take into account the competitive pressures on industrial customers.

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Labrador mines are a high cost operation competing in a global market with depressed product prices. Low electricity rates are the one positive advantage they have. The original investment in Twin Falls was replaced by a long term (2014), low priced Churchill Falls contract. Further investment in Labrador and continued operation of the existing mine would be in jeopardy if there is a failure to renew the low priced electricity contract. Also the company may be impacted by any increases in Labrador City domestic and commercial rates. Because we are unclear about the impact of a redesigned regulatory model it is recommended that the current regulatory model for Labrador not be changed.

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Prefers fair regulated pricing rather than a competitive environment. It prefers not to separate generation and transmission pricing. PUB should be retained perhaps using PBR.

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Concerned that any new rate policy direction will negatively affect their capital expansion plans in the short term and their electricity costs at the end of their current contract in 2014. Low electricity prices enable them to compete in what would otherwise be an impossible battle.

****

FROM INDIVIDUALS

Opposes relying on the marketplace to regulate prices stating also that there seems to be no apparent advantage in "unbundling" prices for generation and transmission. Maintains that Government should retain PUB authority over NLH and not interfere.

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FROM MUNICIPALITIES

No comment.

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FROM NEWFOUNDLAND AND LABRADOR HYDRO

NLH supports the introduction of PBR concepts and pricing reforms with efficient price signals.

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FROM NEWFOUNDLAND POWER

Electricity policy should be based on sound economic principles. NP believes that independent electricity regulation based on such principles and public policy direction by Government can co-exist within the current legislative framework. They favour PBR over the existing form of regulation in that it provides greater flexibility. Unbundling of rates might merit serious consideration. Government should retain the ability to pursue public policy objectives, including social policy objectives, through electricity policy.

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E. RESPONSES ON FUTURE GENERATION SOURCES

FROM ASSOCIATIONS

Supports private development of mini-hydro but must be offered fair rates for their output. Current NLH policy does not allow that. Natural gas can be a big player in the energy field in the province. Requires a change in thinking by those who plan and execute energy policy.

****

Some small hydro projects are acceptable and the moratorium should be lifted to allow for their development. Government should encourage private sector development of these and allow its current legislation and regulations to govern the decision making process with respect to their acceptability. This will require an RSP process that is clear, open and managed by an independent third party.

****

Peat and wind sources should be considered in future sources of generation.

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NLH should control the selection process and build all new generation projects. Nuclear is an unlikely option. Wind energy needs to be on the list of options. Labrador remains a storehouse of large hydro projects the development of which should be encouraged. An expansion of the Holyrood oil-fired station and its future conversion to gas-fired should be considered especially if it avoids on-island small hydro developments. All realistic future technologies should be considered. Supports all opportunities for efficiency gains.

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Wants moratorium continued on small hydroelectric developments. Environmental hearings are not suitable to make their points. Willing to participate in a province-wide assessment that might result in some rivers available for development and others reserved for recreation. Long-term recreational needs must be protected.

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Against any further hydroelectric developments or the use of peat on the island. Not large enough to be significant. Should more vigorously promote conservation and rely on other alternatives, wind, tide, wave and expansion of the oil fired thermal generation. In the longer term gas and nuclear might be considered.

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Lift the small hydro ban and allow the environmental assessment process work. Nurture technology development in the province and promote renewable energy projects. Monitor nuclear. Push DSM, a win-win situation for all.

****

Environmental considerations should be resolved through the current process. Any small-scale hydro project that meets the criteria of sustainable development should be acceptable. Private companies should be allowed to participate. Unlikely that nuclear will be an option. New technology should be used when commercially available. Fully support conservation programs. The conflict situation can be resolved by having an independent third party evaluator oversee the preparation of the RFP and award processes.

****

Accountability conflict is more perceived than real. Selection process OK for new generation in the hands of NLH. Small hydro should still be under a moratorium. Nuclear and wind energy should be options.

**********Not opposed to all small hydro developments but believe we have approached the limit of those acceptable when the environment and salmon fishery is taken into consideration. Nuclear and methane gas should be options. Not enough analysis of the impact of population growth on energy requirements.

****

FROM INDUSTRY

Agree that no source of generation should be ruled out except nuclear. Self-generation projects for all Industry Customers should be encouraged and supported. Supports DSM and conservation efforts. Believes in peat fuel as an option. Would support a Labrador interconnection if it reduces rates. Rural electrification has imposed improper cross subsidization between customers.

****

Cost and environment should be the key determinates for future sources. Private development is acceptable as long as the same rules are followed. Nuclear should be ruled out as long as hydro availability exists. New technologies should be constantly monitored for potential application. Conservation should be practiced based on cost effectiveness.

****

FROM INDIVIDUALS

Limits needed on future hydro-electric generation on the Island. Churchill infeed to the Island should be dismissed and future generation in Labrador should be for export or industrial development in Labrador. Supports wind energy particularly if used in conjunction with hydrogen gas as a storage system. Requests the Government lead a pilot project in this area of technology.

****

Government through NLH should retain the right to develop all large generation projects. For a major industrial load being added to the Island system a fourth unit at Holyrood appears to be the best generation source. Another large on-island source, the Terra Nova River development, should be reconsidered as an alternative. Wind energy does not appear an option for the long term. Thermal generation from peat, wood and waste should be eliminated from the options list. Nuclear plants should remain as an option for the future. An undersea cable connection across the Cabot Strait to Nova Scotia should be eliminated as an option.

****

Suggests priority be given to small-scale hydro plants (25 MW and lower) to meet the next 50 MW of Island growth. Such projects should be competitively bid by private entrepreneurs and judged by an independent body to a specific set of rules.

****

Small hydro plants (5 MW and below) could be privately developed if environmentally acceptable, cost effective and PUB approved. Cost benefit studies should be completed. NLH has the capability to do this. Nuclear and new technology sources are expensive but should not be ruled out as options if they meet conditions stated above. Conservation not the best option but has its place. PUB and audit controls should ensure no conflict of interest.

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Suggested a future energy source could well be electrolysis of water for hydrogen.

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Customers have an incentive now to practice DSM but it has to be recognized that DSM reduces sales and raises average rates.

****

Opposed to relying on any projects which involve raising provincial air pollution. NLH has a rare opportunity to exhibit progressive and pro-active behavior in relation to electricity

generation. Focus on renewable energy in particular wind. The Government should aggressively push energy conservation programs.

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Have concerns about nuclear and the burning of fossil fuels. Must pursue the use of environmentally acceptable sources and fight for access corridors for the distribution of clean energies. Prefers an open public process to discuss the implications of policy changes before implemented.

****

FROM NEWFOUNDLAND AND LABRADOR HYDRO

NLH dismissed the notion that the selection process for generation additions is biased in favour of NLH. They agree that the RFP process must be clear, demonstrably unbiased and transparent with the final decisions taken by the government and PUB. They also agree that all options for future generation should be evaluated but island sources which are truly economic ones are very limited. Long-term possibilities are tied to the availability of gas and Labrador hydro. A transmission loop connection to the Maritimes and the US Northeast is unlikely.

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FROM NEWFOUNDLAND POWER

Generation additions must continue to be at least cost. The selection process for additions should be unbiased, transparent, independent and competitive. Integrate NLH's capabilities into a planning process with ultimate oversight by the PUB. Guidelines needed. NLH should be excluded from bidding projects below 50 MW. Maintaining the moratorium on small hydro plants would result in higher future costs. The process should be open to any proponent and to any generation technology.

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F. RESPONSES ON ECONOMIC DEVELOPMENT

FROM ASSOCIATIONS

Initiate a proactive policy to harness some of the Island's undeveloped hydro potential. A policy that states new industry must pay the full cost of new power should not be implemented. When commercially feasible, would fully support connections to the mainland interconnections.

****

FROM INDUSTRY

Inflated rates, which look like the way we are headed, will not lead to economic efficiency or economic development.

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The iron ore industry in Labrador needs recognition of the considerable financial benefits to the community and to Government. They recommend that electricity rates be used as a tool to support economic development.

****

Ensure rates are based on "cost to produce" for regulated customers, and "market value" for non-regulated customers. Favours rate subsidies for new industries if not excessive and properly monitored. Non-regulated sales external to the province should be self-sustaining and result in long term reduced cost to local ratepayers.

****

FROM INDIVIDUALS

Favoured providing Labrador hydro sites forto industry development there. Avoid electricity rate subsidies. Other tax benefits are the way to go. Encourages interconnection of Island grid with the mainland.

****

FROM MUNICIPALITIES

Of the view that the Upper Churchill should be the cornerstone of electrical policy for the Province. Long term access to revenue and energy from Churchill Falls is crucial to the entire Province and especially the Labrador region. Advocates use Section 92A of the Canadian Constitution to achieve this. A serious marketing effort should be mounted to use the remaining 130 MW of recall now available.

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FROM NEWFOUNDLAND AND LABRADOR HYDRO

NLH strongly believes that economic development and related considerations should reside within the legitimate authority of Government and not with the utility.

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FROM NEWFOUNDLAND POWER

Using electricity as a tool for economic development should not impose unreasonable additional costs upon existing electricity consumers.

****

G. CONCLUSIONS

It was disappointing that the promised submission from the Consumer Advocate was not received in time for inclusion in this report. I am sure his comments would have provided valuable input. Nevertheless I can appreciate that the preparation of a submission came at a very awkward time for him with his heavy involvement in the latest PUB hearing. I believe it would be worthwhile obtaining his views later if possible.

Also there was little information on how the Government is likely to proceed with major economic development issues that might affect the future generation options. Again, understandably, such projections may not be well enough advanced to have them stated at this time.

Otherwise the process seems to have gone well. The responses we did receive were reasonably complete and well presented. In reviewing this report one might be lead to think that anything but the "status quo" position on all the options offered was unthinkable. In fact that is not quite correct. I believe there are adjustments that can be made which if carefully presented will benefit the consumers of electricity as we move forward.

What then accounted for these reactions? As stated earlier in the report, clearly we are moving into a period of significant escalation in electricity rates. Consumers have only recently been made aware of this through the recent PUB hearing into NLH's rates to its customers. One thing that came through loud and clear from all consumers was that cost and reliability of their service were uppermost in their minds. Changes in the structure of the utilities, changes in the way they are regulated, changes in the way new generation and transmission projects are proposed and approved, and changes in rates that might occur as a result of further social and economic development initiatives of the Government - all these changes greatly concern them.

Unknowing of how the various options, if implemented, would contribute to additional costs to them, it was a natural reaction to be cautious, conservative, and even negative to some of the options. The message was proceed with changes if there are obvious benefits in cost savings and/or reliability but scrutinize all other changes to ensure that they are the least cost alternatives.

The policy developers should be satisfied that the feedback as contained in this report should help them. They should understand though that a lot of the conclusions reached in some of the submissions were formulated with a view of a rather pessimistic low load

growth scenario as suggested by the policy paper. Should actions by Government change this picture in a meaningful way the respondents may have reacted differently.